

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**BOARD OF TRUSTEES MEETING**  
**MARCH 26, 2010**



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**MINUTES OF THE  
BOARD OF TRUSTEES MEETING  
NOVEMBER 20, 2009**



The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, November 20, 2009 at 10:05 a.m. The meeting was held in Committee Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Tre Hargett, Secretary of State; Commissioner Deborah Story, Department of Human Resources; Commissioner Dave Goetz, Department of Finance and Administration; Ms. Libby Sykes, Administrative Director of the Courts; Ms. Jill Bachus, Director of TCRS; Ms. Traci Jefferson, Mr. Ken Wilber, Mr. Sammy Jobe, Mr. Michael Barker, Mr. Alfred Laney, Mr. Bill Kemp, Mr. David Seivers, Mr. Erick Huth, and Ms. Paula Shaw.

### **Approval of the September 25, 2009 Minutes of the Board of Trustees**

On a motion by Mr. Jobe and seconded by Mr. Barker, the minutes of the September 25, 2009 TCRS Board of Trustees meeting were unanimously approved.

### **Board of Trustees Committee Report**

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker reviewed the process for insuring TCRS compliance with key policies, laws, and regulations. No action was taken.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus mentioned the committee reviewed the actuarial valuation results. Ms. Bachus noted the committee reviewed the Old Gainesboro Road Utility District request for participation in TCRS. On behalf of the administrative committee Ms. Bachus moved that the Board approve the request for participation in TCRS by Old Gainesboro Road Utility District. The motion was seconded by Mr. Hargett and the Board unanimously approved the Old Gainesboro Road Utility District request for participation in TCRS.

Chairman Lillard reviewed the investment committee report. Chairman Lillard mentioned the committee reviewed and approved a \$50 million commitment to the Oak Tree PPI Private Fund.

### **Investment Report**

Chairman Lillard introduced Mr. Michael Brakebill, Chief Investment Officer, to review the investment report.

Mr. Brakebill began his presentation by reviewing the performance in the Investment Report. For the quarter ending September 30, 2009, TCRS returned 9.24% and was flat for the trailing twelve month period. Mr. Brakebill pointed out that by moving the evaluation period by just one month, from September to October 2009, the return changes from zero to 11.3% for the trailing twelve months (which indicates how volatile

investment markets have been). For the fiscal year to date through October 31, 2009, TCRS is up 8.8%.

Mr. Brakebill reviewed the relative return of TCRS and stated that the Domestic Fixed Income and Real Estate portfolios helped relative returns while tactical allocation and the equity portfolios hurt relative performance. Mr. Brakebill noted that the Domestic Fixed Income Portfolio beat its benchmark by over 350 basis points.

Mr. Brakebill then reviewed the return for TCRS relative to peers. Since TCRS has a conservative risk posture it tends to lag peers in rapidly rising equity markets and lead them in falling markets. The difference in risk posture can be seen with the fund's performance which exceeded 64% of peers over the trailing three years, while falling behind 84% of peers for the most recent quarter. The trailing three year period was one of poor equity market performance, while the trailing quarter was one of above average equity market returns.

Mr. Brakebill then moved his discussion to the Key Initiatives in the Investment Report and stated that normalizing the portfolio is complete. There were equity purchases throughout the quarter accompanied by large equity gains which resulted in the portfolio returning to a normal, but under-weight equity stance. Mr. Brakebill concluded his discussion of Key Initiatives by introducing the Securities Lending initiative. A team has been assembled with the goal of evaluating and proposing a potential securities lending program. Mr. Brakebill stated that peers experienced problems in their lending programs due to excessive risks in their collateral pool investments and that TCRS would seek to develop a program to mitigate those risks.

Mr. Brakebill moved his discussion to asset allocation in the Investment Report. Mr. Brakebill stated that Secretary Hargett had asked an insightful question in the Investment Committee about how much of the increase in the equity allocation was due to performance and how much was due to purchases. In a follow-up to the Secretary's question in the prior meeting, Mr. Brakebill explained the public equity portfolios increased in value \$2.9 billion with approximately half from purchases and half from increased equity valuations.

Next, Mr. Brakebill reviewed the International Fixed Income portfolio and stated that the portfolio was being evaluated and the composition of the portfolio may be changed in the future. The current benchmark for the portfolio has over a 55% exposure to Japanese Government debt, which currently has low returns. Mr. Brakebill stated that Staff would continue the evaluation of the portfolio and would probably make a recommendation for a change in the portfolio composition in the future.

The discussion moved to the Real Estate portfolio where Mr. Brakebill highlighted the challenges the portfolio is currently facing. Since the Real Estate portfolio's valuations are driven by year-end appraisals, the year-end real estate values for TCRS are anticipated to continue to decline. Mr. Brakebill compared real estate to public equities and noted how private market valuations lag public markets because prices do not



respond immediately to changes in the investment outlook. Valuations declined by approximately 13% in the prior year-end appraisals and may decline an additional 17 to 18% in the December 2009 appraisals. This could result in a decrease in overall value the real estate portfolio of TCRS of over 30%. Mr. Brakebill explained how he had reviewed the valuations and felt the valuations would appear conservative after the coming appraisal cycle. Properties have seen declines in rental incomes, but cash flows have not been severely impaired due to TCRS strategy of avoiding the use of leverage whenever possible. Mr. Brakebill noted that Staff continues to evaluate real estate purchases, but has not been able to find any situations meeting Staff's return expectations.

The discussion moved to the Private Equity portfolio where Mr. Brakebill mentioned that the Investment Committee had evaluated and approved a \$50 million investment in the Oak Tree PPIP Fund. This Fund is the fifth limited partnership selected by TCRS. Secretary Hargett asked about the selectivity of the Private Equity portfolio process. Mr. Brakebill responded that, as an example, the TCRS evaluated all nine PPIP managers and had selected one.

In closing, the Treasurer noted that Mr. Brakebill has been visiting real estate directly owned by TCRS. To date, Mr. Brakebill has toured twelve out of 23 direct owned property investments currently held by TCRS.

### **Actuarial Valuation Report**

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats and McAllister to review the TCRS 2009 actuarial valuation report. Mr. Thacker began by reviewing the purpose of the valuation. The valuation determines contribution rates and examines the financial health of the plan.

Next Mr. Thacker reviewed how employer contribution rates are determined. The contribution rate is composed of the normal cost, which is the amount of contribution required to fund benefits earned in the upcoming year, and the amortization of the unfunded accrued liability. Mr. Thacker recommended the 2009 valuation reestablish the unfunded accrued liability and amortize the amount over 20 years. It was noted that local governments will also be allowed to reestablish the unfunded accrued liability.

The actuarial valuation provided new employer contribution rates of 15.01% and 9.05% for state employees and K-12 teachers, respectively. These rates will become effective July 1, 2010 and represents the groups as a whole. Individual local government rates are being prepared using the same analysis found in the actuarial valuation.

Mr. Thacker reviewed the assumption changes that resulted from the 2008 experience study which impacted the valuation results. The changes included adjustments to the mortality, retirement activity, and COLA assumptions.

Next Mr. Thacker reviewed the asset valuation method and its impact. Future actuarial valuations will continue to recognize past investment losses, any future investment gains or losses, the mortality improvements, and new entrant contribution rates. Other considerations for managing future rate volatility include asset smoothing alternatives and unfunded accrued liability amortization periods of up to 30 years.

Mr. Kemp provided a motion to adopt the results of the July 1, 2009 actuarial study utilizing a 20 year amortization period for any accrued liability of the state and teacher groups and providing flexibility for staff to work with local governments on an amortization period not to exceed 30 years. The motion was seconded by Mr. Barker and the Board unanimously approved the actuarial valuation.

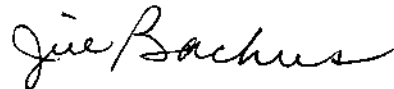
### **Adjournment**

Chairman Lillard announced the completion of the business at hand and asked if there was any other business to come before the Board.

On a motion by Mr. Kemp and seconded by Mr. Seivers, the Board unanimously approved TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:15 a.m. on November 20, 2009.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Jill Bachus".

Jill Bachus  
Board of Trustees, TCRS

## **STATISTICAL REPORTS**



## ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	06/30/06	06/30/07	06/30/08	12/31/08	03/31/09	06/30/09	12/30/09
<b>Group I Members:</b>							
(State & Higher Ed.)	61,579	62,046	62,987	60,127	59,245	58,940	58,911
Teachers	73,673	74,666	76,926	77,708	77,877	78,550	78,616
General Employees of Polisubs	76,521	77,716	80,079	80,003	80,994	80,376	80,732
General Assembly	122	121	124	119	124	122	121
County Officials	4	3	3	3	3	3	3
State Judges	183	181	182	179	177	182	182
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	592	588	634	634	638	635	641
<b>Total Group I</b>	<b>212,675</b>	<b>215,322</b>	<b>220,936</b>	<b>219,158</b>	<b>219,059</b>	<b>218,809</b>	<b>219,287</b>
<b>Group II &amp; Prior Class:</b>							
Wildlife Officers	15	11	10	9	9	9	8
Highway Patrol	34	28	25	13	13	11	9
Firemen & Policemen- Political Subdivisions	69	58	45	40	37	36	35
<b>Total Group II &amp; Prior Class</b>	<b>118</b>	<b>97</b>	<b>80</b>	<b>62</b>	<b>59</b>	<b>56</b>	<b>52</b>
<b>Group III and Prior Class:</b>							
State Judges	4	2	2	2	2	2	2
County Judges	3	-	-	-	-	-	-
Attorneys General	6	5	5	8	5	6	5
County Officials	18	12	12	11	10	10	10
<b>Total Group III &amp; Prior Class</b>	<b>31</b>	<b>19</b>	<b>19</b>	<b>21</b>	<b>17</b>	<b>18</b>	<b>17</b>
<b>Total Membership Contributing to TCRS</b>	<b>212,824</b>	<b>215,438</b>	<b>221,035</b>	<b>219,241</b>	<b>219,135</b>	<b>218,883</b>	<b>219,356</b>
Teachers Contributing to ORP	11,465	11,455	11,501	11,557	11,461	11,388	11,447
<b>Grand Totals</b>	<b>224,289</b>	<b>226,893</b>	<b>232,536</b>	<b>230,798</b>	<b>230,596</b>	<b>230,271</b>	<b>230,803</b>

**RETIRED PAYROLL  
JULY 1, 2009  
THROUGH  
DECEMBER 31, 2009**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	220,939,887.50	36,345
STATE PAID JUDGES	5,259,340.43	172
COUNTY PAID JUDGES	2,463,344.98	136
ATTORNEY GENERALS	4,303,687.16	257
COUNTY OFFICIALS	2,562,727.43	255
PUBLIC SERVICE COMMISSIONERS	47,841.72	5
POLITICAL SUBDIVISIONS	107,165,616.03	29,724
TEACHERS	395,660,454.04	37,478
LOCAL TEACHERS	22,732,838.70	2,363
GOVERNORS AND WIDOWS	170,340.00	5
AGED STATE EMPLOYEES	744.00	1
AGED TEACHERS	<u>37,765.56</u>	<u>45</u>
<b>TOTAL</b>	<b>\$761,344,587.55</b>	<b>106,786</b>

**NOTE: NINETY-FIVE PERCENT (95%) OF THE RETIREES ARE ON DIRECT DEPOSIT.**

**RETIRED PAYROLL  
STATISTICS  
DECEMBER 31, 2009**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	37,044,814.43	36,345
STATE PAID JUDGES	884,658.71	172
COUNTY PAID JUDGES	407,259.92	136
ATTORNEY GENERALS	718,565.64	257
COUNTY OFFICIALS	427,735.02	255
PUBLIC SERVICE COMMISSIONERS	7,973.62	5
POLITICAL SUBDIVISIONS	17,796,018.40	29,724
TEACHERS	65,778,244.75	37,478
LOCAL TEACHERS	3,763,018.17	2,363
GOVERNORS AND WIDOWS	28,390.00	5
AGED STATE EMPLOYEES	124.00	1
AGED TEACHERS	<u>5,955.70</u>	<u>45</u>
<b>TOTAL</b>	<b>\$126,862,758.36</b>	<b>106,786</b>

## NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
July	518	532	829	507	1,149	450	894
August	426	397	544	481	675	308	612
September	565	702	515	546	566	316	494
October	376	390	424	454	609	411	369
November	408	373	316	440	492	353	320
December	298	278	320	318	234	257	256
January	322	401	305	408	450	332	
February	367	339	389	333	308	310	
March	372	360	329	342	316	291	
April	311	287	823	365	308	311	
May	337	291	694	323	619	217	
June	388	374	428	313	843	340	
TOTAL	<u>4,688</u>	<u>4,724</u>	<u>5,916</u>	<u>4,830</u>	<u>6,569</u>	<u>3,896</u>	<u>2,945</u>



**REFUND EXPENDITURES  
2009-10 FISCAL YEAR**

<b>MONTH</b>	<b>MEMBER'S CONTRIBUTIONS</b>	<b>414(H) CONTRIBUTIONS</b>	<b>MEMBER'S INTEREST</b>	<b>EMPLOYER CONTRIBUTIONS</b>	<b>DEATH PAYMENTS</b>	<b>TOTAL</b>
July	126,673.14	3,124,044.38	1,227,788.49	99,281.23	692,151.88	\$5,269,939.12
August	86,751.50	2,837,656.53	1,149,855.19	159,228.52	816,892.92	\$5,050,384.66
September	78,413.83	2,318,108.98	682,068.03	123,226.67	203,589.18	\$3,405,406.69
October	76,449.24	1,803,988.62	572,229.06	83,606.95	189,846.61	\$2,726,120.48
November	93,238.93	1,686,206.72	783,118.04	175,253.42	562,927.51	\$3,300,744.62
December	100,861.36	1,249,292.56	491,401.50	95,517.61	422,610.59	\$2,359,683.62
January						
February						
March						
April						
May						
June						
<b>TOTAL</b>	<b>562,388.00</b>	<b>13,019,297.79</b>	<b>4,906,460.31</b>	<b>736,114.40</b>	<b>2,888,018.69</b>	<b>\$22,112,279.19</b>

**PRIOR SERVICE ACTIVITY**  
**October 1, 2009 through December 31, 2009**

<b>State:</b>	<b>Type of Service</b>	<b>No of Members</b>	<b>Years of Service</b>	<b>Amount</b>
	Backpayment	30	47	\$ 105,947
	Military	31	65	-
	Redeposit	13	49	126,165
	<b>Totals</b>	<b>74</b>	<b>161</b>	<b>\$ 232,112</b>

<b>Teachers:</b>	<b>Type of Service</b>	<b>No of Members</b>	<b>Years of Service</b>	<b>Amount</b>
	Backpayment	11	11	\$ 114,545
	Military	11	18	765
	Redeposit	14	58	135,471
	<b>Totals</b>	<b>36</b>	<b>87</b>	<b>\$ 250,780</b>

<b>Higher Education:</b>	<b>Type of Service</b>	<b>No of Members</b>	<b>Years of Service</b>	<b>Amount</b>
	Backpayment	39	40	\$ 109,595
	Military	8	14	-
	Redeposit	6	13	27,267
	<b>Totals</b>	<b>53</b>	<b>67</b>	<b>\$ 136,862</b>

<b>Political Subdivisions:</b>	<b>Type of Service</b>	<b>No of Members</b>	<b>Years of Service</b>	<b>Amount</b>
	Backpayment	207	257	\$ 257,241
	Military	22	47	6,186
	Redeposit	10	49	33,688
	<b>Totals</b>	<b>239</b>	<b>353</b>	<b>\$ 297,114</b>

<b>Grand Totals:</b>	<b>Type of Service</b>	<b>No of Members</b>	<b>Years of Service</b>	<b>Amount</b>
	Backpayment	287	355	\$ 587,327
	Military	72	144	6,951
	Redeposit	43	169	322,590
	<b>Totals</b>	<b>402</b>	<b>668</b>	<b>\$ 916,868</b>

## **DISABILITY RETIREMENT REPORT**



## **Disability Statistical Report**

### **Second Quarter 09-10**

Disability Applications Received	October	39
	November	22
	December	<u>32</u>
	TOTAL	93
Initial Claims Approved	October	24
	November	33
	December	<u>20</u>
	TOTAL	77
Initial Claims Disapproved	October	4
	November	12
	December	<u>5</u>
	TOTAL	21
Initial Claims Approved after Reconsideration		5
Initial Claims Disapproved after Reconsideration		7
Re-Evaluation Claims Approved		55
Re-Evaluation claims Disapproved		0
Cases Referred to Vocational Rehabilitation		0



# APPROVED FOR DISABILITY SECOND QUARTER 2009-2010

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
SS-ORD	YES	NO	41	STATE	SPECIAL AGENT	12	\$49,937	D	\$1,059	PROLIFERATIVE DIABETIC RETINOPATHY
ORD.	NO	NO	55	STATE	HOUSEKEEPER	9	\$22,948	A	\$365	COPD/COR PULMONALE/EMPHYSEMA
ORD.	NO	NO	51	STATE	HWY WKR I	8	\$20,089	B	\$390	RSD- LEFT ELBOW CUBITAL TUNNEL SYNDROME- OJA
ORD.	NO	NO	59	STATE	RECORDS ANALYST	8	\$22,072	A	\$260	HNP/ SPONDYLOSIS/ LUMBAR RADICULOPATHY
ORD.	NO	NO	55	POL SUB	CAFETERIA WORKER	9	\$14,763	B	\$220	METASTATIC LUNG CANCER
ORD.	YES	NO	48	TEACHER	TEACHER	11	\$36,682	A	\$866	METASTATIC BREAST CANCER
ORD.	NO	NO	58	STATE	PROGRAM SPECIALIST	6	\$31,198	A	\$368	MORBIDLY OBESE/ COPD/ ASHD/ SLEEP APNEA
ORD.	YES	NO	48	TEACHER	HVAC INSTRUCTOR	20	\$50,425	A	\$1,216	CONGENITAL STENOSIS/ DDD/ S/P FUSION
ORD.	NO	NO	55	POL SUB	SUPERVISOR	11	\$25,374	A	\$482	RA/SEIZURES/BIPOLAR DISORDER/SLEEP APNEA
ORD.	YES	YES	42	STATE	SPECIALIST	11	\$19,221	A	\$454	DIABETES/ PERIPHERAL NEUROPATHY/ BACK PAIN/
ORD.	YES	NO	44	TEACHER	TEACHER	9	\$32,761	A	\$774	TYPE II DM/ S/P MI/ ANOXIC BRAIN DAMAGE
ORD.	YES	NO	50	POL SUB	PARAMEDIC SUPERVISOR	7	\$45,921	A	\$922	SEVERE CAD S/P STENT PLACEMENTS/CADG
ORD.	YES	NO	53	POL SUB	ORDERLY	29	\$30,502	B	\$917	PTSD/ETOH DEPENDENCE/MOOD DISORDER/COLON CA/HTN
ACC.	YES	NO	53	TEACHER	TEACHER	2	\$34,074	A	\$402	PTSD
ORD.	YES	NO	46	POL SUB	CUSTODIAN	14	\$22,580	A	\$195	HEART TRANSPLANT
ORD.	YES	NO	49	POL SUB	CUSTODIAN	8	\$19,939	A	\$436	L-ARM MRSAIL-WRIST ARTHRITIS/CELLULITIS/ SPONTANEOUS RADIOCARPAL ARTHRODESIS
ORD.	YES	NO	44	POL SUB	ASSISTANT MANAGER	14	\$28,842	A	\$681	METASTATIC COLON CA
SS-ORD	YES	NO	48	STATE	FOOD SERVICE WORKER	6	\$13,476	D	\$221	CAD/PVD/HODGKINS LYMPHOMA/RADIATION FIBROSIS/HTN
ORD.	YES	NO	42	POL SUB	LABORER	13	\$22,675	B	\$878	COPD/HTN/DM/ANXIETY DISORDER/DEPRESSION
ORD.	NO	NO	56	POL SUB	POLICE OFFICER	7	\$55,575	A	\$703	COPD/ SLEEP APNEA/ CAD

**APPROVED FOR DISABILITY  
SECOND QUARTER  
2009-2010**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt	Mo. Ben.	Disability Summary
ORD.	NO	NO	53	POL SUB	LABORER	18	\$24,900	C	\$546	DEPRESSION/PANIC DISORDER/ AGORAPHOBIA/ANXIETY/L-SHOULDER PAIN
INACT.	NO	NO	51	POL SUB	CUSTODIAN/TIRE REPAIR	6	\$13,560	A	\$246	ROT CUFF REPAIR/ S/P RT KNEE SURGERY
ORD.	YES	NO	52	POL SUB	LABORER	20	\$30,882	E	\$605	RECTAL CANCER W/METASTASES
ORD.	YES	NO	48	STATE	COUNTY DIRECTOR	20	\$47,710	C	\$1,099	MULTIPLE SCLEROSIS
ORD.	NO	YES	53	STATE	SECRETARY	22	\$21,643	D	\$439	SEVERE DEPRESSION/ PTSD/ GOUT/ CTS/DJD
ORD.	NO	NO	53	TEACHER	LIBRARIAN	21	\$56,114	B	\$1,231	BULBAR PALSY W/ DYSARTHIA-ALS
ORD.	NO	NO	53	POL SUB	HVY EQUIP OPERATOR	8	\$32,300	D	\$480	NON HODGINS LYMPHOMA
ORD.	NO	NO	56	TEACHER	TEACHER	27	\$53,596	A	\$1,719	LUMBAR DISCITIS
SS-ORD	NO	NO	51	STATE	GROUPS WORKER II	27	\$28,977	D	\$778	CARDIOMYOPATHY/CHF/COPD/CHRONIC RENAL INSUFFICIENCY/SLEEP APNEA/DM
ORD.	YES	NO	49	STATE	FIELD SUPERVISOR	25	\$41,152	B	\$1,078	MORBID OBESITY/ CHRONIC BACK PAIN/ LUMBAR RADICULOPATHY
ORD.	YES	NO	39	POL SUB	MECHANIC-HVAC	11	\$32,949	B	\$693	ESRD
ORD.	YES	NO	49	TEACHER	TEACHER	20	\$50,725	A	\$1,208	CHRONIC HA'S/ S/P CERVICAL FUSION/ SPONDYLOSIS
ORD.	NO	NO	58	POL SUB	MECHANIC/BUS DRIVER	22	\$39,486	B	\$899	SEVERE COPD/O2 THERAPY
ORD.	NO	NO	55	TEACHER	TEACHER	21	\$41,864	A	\$1,034	LYMPHOID LEUKEMIA
SS	NO	NO	54	STATE	STORE KEEPER II	13	\$25,485	B	\$510	LEGALLY BLIND
ORD.	NO	NO	54	STATE	CORR SERGEANT	28	\$41,513	A	\$1,368	CAD/ CABG
ORD.	YES	NO	40	POL SUB	TRUCK DRIVER	13	\$28,984	A	\$685	PLASMACYTOMA, CRYOGLOBULINEMIA
INACT.	NO	NO	51	POL SUB	CUSTODIAN/ GROUNDS	5	\$18,363	D	\$277	DM/ NON HEALING ACHILLES TENDON
ORD.	YES	NO	49	STATE	STOREKEEPER	22	\$27,154	A	\$727	DDD/ UTI'S/ SPINAL CORD COMPRESSION
ORD.	YES	NO	45	TEACHER	TEACHER	23	\$47,988	A	\$1,304	PSORIATIC ARTHRITIS



**APPROVED FOR DISABILITY  
SECOND QUARTER  
2009-2010**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt.	Mo. Ben.	Disability Summary
SS-ORD	YES	NO	56	POL SUB	RECYCLING SUPERVISOR	12	\$25,397	B	\$391	CAD/HTN/IDM/NEUROPATHY/RETINOPATHY/RENAL FAILURE/VASCULAR DISEASE
SS-ORD	NO	NO	55	STATE	TECH	21	\$29,304	B	\$576	MASSIVE HEART ATTACK/HEART TRANSPLANT LIST
SS-ORD	YES	NO	54	POL SUB	JANITOR	5	\$15,532	A	\$207	COPD/HTN/DDD/BIPOLAR D/O/PTSD
INACT.	NO	NO	52	POL SUB	TEACHER AIDE	25	\$16,970	A	\$333	CVA WITH RESIDUAL R-HEMIPARESIS
ORD.	YES	NO	48	POL SUB	MAINTENANCE	9	\$22,389	A	\$529	FACIAL DEFORMITIES/CHRONIC PAIN/CERVICAL RADICULOPATHY
ORD.	YES	YES	50	POL SUB	POLICEMAN	8	\$30,012	A	\$299	POST LAMINECTOMY SYNDROME
ORD.	NO	YES	50	STATE	HWY WKR	8	\$19,444	A	\$138	HEAD INJURY/ VISUAL LOSS/ POSITIONAL VERTIGO
ORD.	NO	NO	35	STATE	CASE WORKER	8	\$34,375	B	\$753	HUNTINGTON'S CHOREA
ORD.	NO	NO	47	TEACHER	TEACHER	11	\$49,656	B	\$1,085	METASTATIC BREAST CANCER
ORD.	NO	NO	56	STATE	CLERICAL	16	\$30,735	A	\$1,228	CHRONIC PAIN SYNDROME/ LBP/ BILATERAL TOTAL KNEE
SS-ORD	NO	NO	57	TEACHER	TEACHER	17	\$48,297	A	\$1,144	SPINAL STENOSIS/HNP/ DEPRESSION
ORD.	NO	NO	57	STATE	CORR OFFICER	20	\$37,856	A	\$901	COPD/ CAD
ORD.	NO	NO	54	STATE	PROBATION MANAGER	30	\$48,785	A	\$1,936	ARTHRITIS, FIBROMYALGIA, DDD, DEPRESSION, MIGRAINES, OSA
SS-ORD	YES	NO	40	POL SUB	MEDICAL TECHNOLOGIST	6	\$62,151	A	\$887	ESRD/ DM/ RETINOPATHY/ FIBROMYALGIA/ NEUROPATHY
ORD.	YES	NO	47	STATE	POLICE LIEUTENANT	21	\$50,272	O	\$1,184	CIRRHOSIS OF THE LIVER, DVT, HEPATIC ENCEPHALOPATHY, ESOPHAGEAL VARICES
ORD.	YES	NO	47	STATE	OFFICER	14	\$29,378	B	\$616	MORBID OBESITY/ DEFORMED FEET/ NEUROPATHY/ DEPRESSION
ORD.	NO	NO	55	TEACHER	INSTRUCTIONAL COACH	6	\$49,341	A	\$636	ALS
ORD.	YES	NO	49	TEACHER	TEACHER	12	\$39,302	A	\$421	ACUTE MYELOID LEUKEMIA
ORD.	NO	NO	58	STATE	BUYER	29	\$33,691	A	\$1,177	BILATERAL LUNG TRANSPLANT
ORD.	YES	YES	50	POL SUB	SVC AND UTILITY MANAGER	22	\$39,242	A	\$993	DDD/SIP LAMINECTOMY W/R-SCIATICA, LUMBAR ARTHRITIS

**APPROVED FOR DISABILITY  
SECOND QUARTER  
2009-2010**

Type	Re-E	Re-C	Age	Employer	Position	SVC	AFC	Opt	No. Ben.	Disability Summary
ORD.	NO	NO	54	POL SUB	STAFF NURSE	18	\$42,413	B	\$916	BI-POLAR DISORDER/ DEPRESSION
ORD.	NO	NO	54	TEACHER	TEACHER	22	\$41,314	A	\$1,102	END STAGE RENAL DISEASE/DIALYSIS
ORD.	YES	NO	50	TEACHER	TEACHER	23	\$58,292	A	\$1,614	DEMENTIA/DEPRESSION
ORD.	NO	NO	50	STATE	TRANS TECH	22	\$31,613	A	\$818	OA/ BILATERAL TOTAL KNEES/ OBESITY/ DM
ORD.	NO	NO	55	STATE	FIELD SUPERVISOR I	24	\$42,515	A	\$1,213	END STAGE RENAL DISEASE/DIALYSIS
ORD.	NO	NO	53	POL SUB	SECRETARY	11	\$18,148	A	\$366	LYMPHEDEMA
ORD.	NO	NO	51	STATE	CUSTODIAN	20	\$21,483	A	\$528	COPD/CAD/HTN/MYOCARDIAL INFARCTION
ORD.	YES	NO	48	POL SUB	HVY EQUIP OPERATOR	10	21,834	A	\$515	DJD/ DDD/ HTN/ DM
INACT.	NO	NO	42	TEACHER	TEACHER	14	\$43,770	D	\$958	KNEE AND BACK PAIN, MIGRAINE HAS/HTN/CARPAL TUNNEL/DEPRESSION
ORD.	NO	NO	57	POL SUB	ACC PAYABLE CLERK	29	\$36,400	A	\$1,250	BERYLLIUM DISEASE/ SOB/ FATIGUE/ DEPRESSION
ORD.	YES	NO	47	STATE	COMPLIANCE OFFICER	9	\$38,711	A	\$914	MENIERE'S DISEASE
ORD.	NO	NO	59	STATE	RN	6	\$57,652	B	\$540	COPD/SPINAL STENOSIS
SS-ORD	YES	NO	40	TEACHER	TEACHER	15	\$46,828	A	\$1,106	PERAPLEGIA WITH LOWER EXTREMITY WEAKNESS
ORD.	NO	NO	54	POL SUB	DIRECTOR OF PLANNING	10	\$88,588	B	\$1,570	BRAIN CANCER
SS-INACT.	NO	NO	53	STATE	CASHIER	5	\$18,499	A	\$20	LUMBAR SPONDYLOSIS/ OA/ MORBID OBESITY
SS-ORD	YES	NO	46	TEACHER	TEACHER	8	\$52,040	A	\$1,228	MAJOR DEPRESSION/ PTSD/ OA/ COPD
ACC.	NO	NO	55	POL SUB	CAPTAIN	20	\$34.03	B	\$805	FX FEMUR/ BACK INJURY/ CONTINUED PAIN
ORD.	YES	NO	36	STATE	INVESTIGATIONS OFFICER	5	\$41,263	A	\$974	HTN/DM/CHRONIC RENAL DISEASE/DM RETINOPATHY

**DISAPPROVED FOR DISABILITY  
SECOND QUARTER  
2009-2010**

Type	Re-C	Age	Employer- Generic	Position	Yrs Srv	Disability Summary	Reason Denied
ORD.	YES	55	TEACHER	TEACHER	25	NIDDM/NEUROPATHY/DDD/BACK AND L-HIP PAIN/RADICULOPATHY	NOT DISABLED AT LAST DAY PAID/NOT ELIGIBLE FOR INACTIVE
ORD.	YES	48	STATE	ELIGIBILITY COUNSELOR II	9	ARACHNOIDITIS, MYOSITIS, LUMBAR DJD, IA, DEPRESSION, LUMBAR RADICULITIS	CAPABLE OF SED TO LIGHT WRA
ORD.	YES	40	POL SUB	TECHNICIAN	11	ALLERGIES DUE TO TOXIC MOLD	CAPABLE OF LIGHT WORK
ORD.	NO	59	POL SUB	COOK	23	MILD DDD/ DEPRESSION	CAPABLE OF LIGHT WORK
ORD.	NO	55	POL SUB	PLANT OPERATOR	10	DDD/LUMBAR RADICULITIS/CHRONIC PAIN	CAPABLE OF SED TO MED WORK
ORD.	YES	55	POL SUB	TOWN OF BYRDSTOWN	10	DDD/LUMBAR RADICULITIS/CHRONIC PAIN	CAP OF SED TO MED WORK
ORD.	NO	55	STATE	SUPPORT SPECIALIST IV	12	COLITIS/CHRONIC DIARRHEA/ESOPHAGEAL REFLUX	CAPABLE OF LIGHT TO MEDIUM WRA
ORD.	NO	51	STATE	DEPT OF CORRECTIONS	25	CERVICAL AND LUMBAR SPONDYLOSIS & DDD	RESTRICTED TO SED TO LIGHT WRA
ACC.	YES	57	POL SUB	PARAMEDIC	13	LUMBAR DDD/S/P FUSION/CHRONIC PAIN/DEPRESSION	CAPABLE OF SED TO LIGHT WORK
ORD.	NO	44	POL SUB	ATTENDANT/ RESOURCE	6	SPINA BIFIDA/ FIBROMYALGIA/ DDD/ NEUROPATHY	CAPABLE OF SEDENTARY WORK
ORD.	YES	53	POL SUB	WARRANTS CLERK	10	TOTAL R-KNEE REPLACEMENT/CHRONIC PAIN SYNDROME/DDD	CAPABLE OF SED TO LIGHT WRA
ACC.	YES	51	TEACHER	TEACHER	19	LBP, LEG PAIN AND FOOT PAIN DUE TO AN OJA 3/07/07	CAPABLE OF LIGHTWORK
ORD.	NO	47	STATE	SERVICE ASSISTANT I	11	FIBROMYALGIA/CHRONIC PAIN/CHRONIC MIGRAINES/IBS/QA/SLEEP APNEA/OBESITY	CAPABLE OF SED TO MED WORK
ORD.	NO	43	POL SUB	MAINTENANCE/PAINTER	20	MAJOR DEPRESSIVE DISORDER/ ANXIETY/ ADD/ BI-POLAR DISORDER	CAPABLE OF SEDENTARY TO LIGHT WRA
INACT.	NO	47	POL SUB	HOUSEKEEPER	20	NIDDM/ HTN/ DEPRESSION	CAPABLE OF WORK PER HER PHYSICIAN
ORD.	YES	49	POL SUB	PARAMEDIC	5	S/P CERVICAL FUSION	CAPABLE OF SED TO LIGHT WORK

**DISAPPROVED FOR DISABILITY  
SECOND QUARTER  
2009-2010**

Type	Re-C	Age	Employer- Generic	Position	Yrs. Srv.	Disability Summary	Reason Denied
ORD.	NO	60	POL SUB	LANDSCAPER	9	DIZZINESS/DM II/HTN	CAP OF MED TO LIGHT WORK
ORD.	NO	55	STATE	VOCATIONAL INSTRUCTOR	12	FIBROMYALGIA/ OA/ OBESITY/ BACK PAIN W/RADICULOPATHY	CAPABLE OF SEDENTARY WORK
ORD.	NO	51	STATE	CUSTODIAN	9	DJD/ R ACL TEAR	CAPABLE OF MODERATE ACTIVITY
ORD.	NO	57	STATE	DEVELOPMENTAL TECH II	9	COPD/SOB/OBESITY/OAOF KNEES/PVD/NIDDM/LEG PAIN	NOT DISABLED AT LDP/NOT ELIGIBLE FOR INACTIVE
ORD.	YES	37	POL SUB	COMPUTER TECH	7	TOXIC MOLD EXPOSURE	LIMITED TO SEDENTARY WORK
ORD.	NO	47	STATE	RECREATION THERAPIST	6	LOW BACK PAIN WITH RADICULOPATHY	HER PHYSICIAN STATES SHE CAN WORK

## **FINANCIAL STATEMENTS**



**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENT OF PLAN NET ASSETS**  
**AS OF DECEMBER 31, 2009**

**ASSETS**

Cash and cash equivalents	\$ 375,209,998.01
Receivables	
Member receivable	953,068.93
Employer receivable	891,752.74
Accrued interest receivable	106,071,116.24
Accrued dividends receivable	27,565,693.49
Real estate income receivable	267,546.01
Investments sold	126,298,573.20
Total receivables	262,047,750.61
Investments, at fair value	
Short-term securities	118,064,435.42
Government securities	8,321,283,348.00
Corporate securities	5,587,609,217.84
Corporate stocks	13,912,037,878.91
Private Equities	4,935,272.00
Real estate	970,807,402.90
Total investments	28,914,737,555.07
<b>TOTAL ASSETS</b>	<b>29,551,995,303.69</b>

**LIABILITIES**

Retired payroll payable	5,522,136.81
Accounts payable	775,678.34
Investments purchased	529,086,851.65
Other investment payables	2,390,200.00
<b>TOTAL LIABILITIES</b>	<b>537,774,866.80</b>

<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 29,014,220,436.89</b>
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*See Accompanying Notes to the Financial Statements*

**UNAUDITED**

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**JULY 1, 2009 THROUGH DECEMBER 31, 2009**

**ADDITIONS**

Contributions	
Member contributions	\$96,419,665.67
Employer contributions	344,644,795.69
Total contributions	<u>441,064,461.36</u>
Investment income	
Net Appreciation in fair value of investments	2,548,910,305.41
Interest	294,950,131.55
Dividends	119,546,167.97
Real Estate income, net of operating expenses	32,810,089.13
Total investment income	<u>2,996,216,694.06</u>
Less: Investment expense	<u>(6,767,853.57)</u>
Net investment income	<u>2,989,448,840.49</u>
<b>TOTAL ADDITIONS</b>	<u><b>3,430,513,301.85</b></u>

**DEDUCTIONS**

Annuity benefits	
Retirement benefits	629,173,051.68
Cost of living	132,189,227.61
Death benefits	2,926,844.18
Refunds	18,112,511.63
Administrative expenses	3,116,944.66
<b>TOTAL DEDUCTIONS</b>	<u><b>785,518,579.76</b></u>

NET INCREASE 2,644,994,722.09

**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**

JULY 1, 2009	26,369,225,714.80
DECEMBER 31, 2009	<u><u>\$29,014,220,436.89</u></u>

*See Accompanying Notes to the Financial Statements*

**UNAUDITED**



**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of investments in private equities is determined quarterly by the independent private equity managers with a more intensive review being performed at the end of each calendar year end. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

**B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION**

At July 1, 2007, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	70,598	27,632
Terminated members entitled to but not receiving benefits	21,032	9,732
Current active members	<u>136,329</u>	<u>76,396</u>
Total	227,959	113,760
Number of participating employers	140	488

**State Employees, Teachers and Higher Education Employees Pension Plan**

*Plan Description* - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

*Superseded Systems and Certain Employment Classifications* - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

*Contributions and Reserves* - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

**Political Subdivisions Pension Plan**

*Plan Description* - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

*Contributions and Reserves* - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

**C. DEPOSITS AND INVESTMENTS**

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic stock index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2009, the TCRS had the following investments:

**Investments**  
*(Expressed in Thousands)*

Investment Type	Fair Value as of June 30, 2009	U. S. Treasury/ Agency (1)	Credit Quality Ratings								Not Rated
			AAA	AA	A	BBB	BB	B	CCC	A1 (3)	
<b>Debt Investments</b>											
U.S. Govt. Treasuries, Notes, Bonds	\$ 1,202,822	\$ 1,202,822									
U.S. Govt. Inflation Indexed	2,073,076	2,073,076									
U.S. Govt. Agencies	530,395	13,525	\$ 431,244								\$ 85,626
											(2)
Govt. Mortgage-Backed	2,921,531	454,436									2,467,095
Commercial Mortgage-Backed	792,148		762,591	\$ 29,557							
Corporate CMO's	462,296		53,299	9,312	\$ 22,978	\$ 50,310	\$ 38,440	\$ 117,731	\$ 140,579		29,647
Corporate Bonds	3,093,094		93,218	197,419	943,540	1,659,344	131,428	12,145	7,945		48,055
Corporate Asset-Backed	1,172,806		984,998	92,868		63,954			10,867		20,119
Non-U.S. Govt./Sovereign	822,804		403,642	419,162							
Short-Term Commercial Paper	636,343									\$ 636,343	
Short-Term Agencies	995,296		200,792								794,504
<b>Total Debt Investments</b>	<b>\$ 14,702,611</b>	<b>\$ 3,743,859</b>	<b>\$ 2,929,784</b>	<b>\$ 748,318</b>	<b>\$ 966,518</b>	<b>\$ 1,773,608</b>	<b>\$ 169,868</b>	<b>\$ 129,876</b>	<b>\$ 159,391</b>	<b>\$ 636,343</b>	<b>\$ 3,445,046</b>
<b>Other Investments</b>											
U.S. Equity	\$ 7,342,606										
Non-U.S. Equity	3,052,908										
Real Estate	1,198,008										
Commingled Money Market Funds	205										
<b>Total Other Investments</b>	<b>11,593,727</b>										
<b>Total Investments</b>	<b>\$ 26,296,338</b>										
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(1,240,561)										
<b>on Statements of Plan Net Assets</b>	<b>\$ 25,055,777</b>										

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

(3) A1 is the highest rating category for commercial paper.

UNAUDITED

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

**Credit Risk** - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2009 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Rosa Parks Avenue, Nashville, Tennessee 37243-0298.

**Concentration of Credit Risk** - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

<b>Issuer Organization</b>	<b><u>June 30, 2009</u></b>	
	<b>Fair Value</b>	<b>Percentage</b>
Federal National Mortgage Assoc.	\$1,933,810,560	7.33%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

**Tennessee Consolidated Retirement System**  
**Notes to the Financial Statements**  
**December 31, 2009**

**Interest Rate Risk** - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2009

**Debt Investments**  
*(Expressed in Thousands)*  
*At June 30, 2009*

Investment Type	Fair Value As of June 30, 2009	Effective Duration (years)
<b><u>Debt Investments</u></b>		
Government Agencies	\$ 765,734	5.81
Government Bonds	1,790,287	7.90
Government Inflation Indexed	2,073,076	5.62
Government Mortgage-Backed	2,921,531	3.28
Corporate Collateralized Mortgage Obligations (CMO)	462,296	0.50
Corporate Commercial Mortgage-Backed	792,148	2.98
Corporate Asset-Backed Securities	1,172,806	2.27
Corporate Bonds	3,093,094	5.76
Short-Term Commercial Paper	636,343	0.00
Short-Term Agencies	995,296	0.17
<b>Total Debt Investments</b>	<b>\$ 14,702,611</b>	<b>4.29</b>

**Asset-Backed Securities** - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2009 was \$1,254,443,668 of which \$645,384,527 were CMOs that are generally more sensitive to interest rate changes.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2009 was as follows:

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**Foreign Currency-Denominated Investments**  
*(Expressed in Thousands)*

Currency	Total Fair Value June 30, 2009	Fixed Income	Equity	Cash
Australian Dollar	\$ 150,953	\$ -	\$ 149,334	\$ 1,619
British Pound Sterling	694,406	\$ 96,355	595,414	2,637
Canadian Dollar	30,217	0	30,208	9
Danish Krone	32,296	0	32,282	\$ 14
Euro Currency	999,083	227,493	762,476	9,114
Hong Kong Dollar	88,179	0	88,017	162
Japanese Yen	1,168,096	432,965	729,820	5,311
New Zealand Dollar	6,536	0	6,536	0
Norwegian Krone	40,241	5,841	33,816	584
Singapore Dollar	35,648	0	34,649	999
Swedish Krona	53,054	0	53,040	14
Swiss Franc	237,098	0	237,073	25
<b>Total</b>	<b>\$ 3,535,807</b>	<b>\$ 762,654</b>	<b>\$ 2,752,665</b>	<b>\$ 20,488</b>

**Derivatives** - The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2009 has been reflected in the financial statements.

**D. COMMITMENTS**

**Standby Commercial Paper Purchase Agreement** - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 7.5 basis points on the \$250 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, and 12 basis points during times when either Moody's or Standard and Poor's has assigned ratings other than Aaa and AAA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points



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during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

**E. FUNDED STATUS AND FUNDING PROGRESS**

The funded status of each plan as of July 1, 2007, the most recent actuarial valuation date, is as follows:

**Schedules of Funding Progress**  
*(Expressed in Thousands)*

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
<b>PSPP</b>	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2007, the TCRS reestablished unfunded accrued liabilities for all groups. For the year ended June 30, 2008, information regarding the funded status and funding progress is required to be presented using the entry age actuarial cost method. In the actuarial valuation in which unfunded accrued liabilities are reestablished, the Frozen Entry Age actuarial cost method and the entry age normal actuarial cost method produce the same results.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided in the required supplemental information. Additional required historical information will be provided in subsequent years once available.

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Additional information as of the latest actuarial valuation follows:

	<b>SETHEEPP</b>	<b>PSPP</b>
Valuation Date	July 1, 2007	July 1, 2007
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year moving market average	5-year moving market average
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	3.00%	3.00%
Increase in Social Security wage base	3.50%	3.50%
(1) The length of the amortization period varies by political subdivision, not to exceed 30 years		
(2) Uniform rate that approximates the effect of a graded salary scale.		

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**Schedules of Funding Progress**  
*Expressed in Thousands*

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>SETHEEPP</b>	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
<b>PSPP</b>	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%

The schedule of funding progress is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since the TCRS has previously calculated the annual required contribution (ARC) using the aggregate actuarial cost method and the requirement to present the Schedule of Funding Progress using the entry age actuarial cost method is effective beginning for the year ended June 30, 2008, only the funded status information relating to the most recent actuarial valuation date is provided. The entry age actuarial cost method presented is intended to serve as a surrogate for the funded status and funding progress of the plan. Additional required historical information will be provided in subsequent years once available.

**Schedules of Employer Contributions**  
*Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2009	\$583,985	100.00%	\$252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%
2004	271,298	100.00%	139,808	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2009.

UNAUDITED

